

ORIGINAL OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

2006 DEC -5 P 12:48

TO: THE COMMISSION

DOCKETED

FROM: Utilities Division

DEC -5 2006

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: December 5, 2006

DOCKETED BY	
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RE: IN THE MATTER OF LAS QUINTAS SERENAS WATER COMPANY'S COMPLIANCE FILING AND REQUEST FOR APPROVAL OF PROPOSED SURCHARGE (DOCKET NOS. W-01583A-04-0178, W-01583A-05-0326 AND W-01583A-05-0340)

Introduction

On November 7, 2006, pursuant to Decision No. 68718, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic removal surcharge as shown on Table A. Las Quintas is a certificated Class C utility that provides water service to approximately 900 customers in a portion of southern Pima County, Arizona.

Background

On January 23, 2001, the United States Environmental Protection Agency reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by January 23, 2006.

On June 1, 2006, in Decision No. 68718, Las Quintas was authorized financing approval and an arsenic remedial surcharge mechanism ("ARSM").¹ Decision No. 68718 directed the Company to make an arsenic surcharge recovery filing within 15 days of the loan closing. Implementation of the ARSM would enable the Company to meet its principal and interest obligations on the actual amount of the loan and pay income taxes on the surcharges.

Staff Adjustments

Decision No. 68718 stated that,

¹ The Decision uses the term "arsenic recovery mechanism" or "ACRM" instead of "arsenic remedial surcharge mechanism" or "ARSM." This memorandum uses the latter term hereafter.

“ . . . LQS be required to calculate its proposed surcharge tariff using . . . the same methodology that Staff used to determine the estimated surcharge amount . . .” (emphasis added).

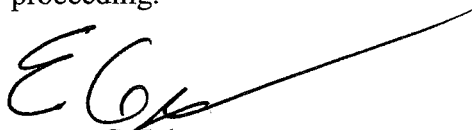
Staff's methodology allowed only the principal and interest on the authorized loan amount and the related income taxes to be recovered through the ARSM. In addition to those authorized costs, the Company's proposed surcharge includes \$38,983 for an annual Water Infrastructure Finance Authority Debt Reserve payment and the incremental income taxes thereon. Since a provision for these additional items was not authorized in Decision No. 68718, Staff removed the \$38,983 from the surcharge revenue requirement used to calculate the arsenic remedial surcharge.

Staff also determined that the Company improperly calculated the gross revenue conversion factor used in the ARSM. The Company's calculation does not include a gross-up for income taxes on the surcharge revenues to cover principal on the arsenic loan. This omission understates the Company's gross revenue conversion factor, and consequently, the surcharge revenue requirement. Staff corrected this error by using the 1.4120 gross revenue conversion factor reflected in Staff's ARSM testimony that was the basis of the ARSM adopted by the Commission.

Staff recommends approval of Staff's recommended arsenic surcharges as shown on Table A.

Staff further recommends that the Company file a tariff consistent with Table A explaining the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of the decision resulting from this proceeding.

Staff further recommends that Las Quintas notify its customers of the Arsenic Remedial Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.



Ernest G. Johnson
Director
Utilities Division

EGJ:CSB:lhvJMA

Originator: Crystal Brown

TABLE A

Arsenic Remedial Monthly Surcharge Per Meter

	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8 Inch x 3/4 Inch Meter	\$ 13.59	\$ 11.37
3/4 Inch Meter	\$ 20.39	\$ 17.05
1 Inch Meter	\$ 33.98	\$ 28.42
1 1/2 Meter	\$ 67.96	\$ 56.84
2 Inch Meter	\$108.74	\$ 90.94
3 Inch Meter	None Proposed	\$170.52
4 Inch Meter	\$339.82	\$284.20
6 Inch Meter	None Proposed	\$568.40
Standpipe	\$ 13.59	\$ 11.37

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

IN THE MATTER OF THE APPLICATION
OF LAS QUINTAS SERENAS WATER
COMPANY FOR A RATE INCREASE

DOCKET NO. W-01583A-04-0178

IN THE MATTER OF THE APPLICATION
OF LAS QUINTAS SERENAS WATER
COMPANY FOR AUTHORITY TO INCUR
LONG-TERM INDEBTEDNESS TO
FINANCE WATER SYSTEM
IMPROVEMENTS AND ASSURE
COMPLIANCE WITH NEW ARSENIC
RULES

DOCKET NO. W-01583A-05-0326

IN THE MATTER OF THE APPLICATION
OF LAS QUINTAS SERENAS WATER
COMPANY FOR AN OPINION AND
ORDER TO (i) RE-OPEN THE RECORD IN
A RECENT RATE CASE SO AS TO
CONSIDER EVIDENCE IN SUPPORT OF
AN ARSENIC COST RECOVERY
MECHANISM, AND (ii) MODIFY RATE
CASE DECISION IN ORDER TO ADD AN
ARSENIC COST RECOVERY
MECHANISM AS AN AUTHORIZED RATE
AND CHARGE

DOCKET NO. W-01583A-05-0340

DECISION NO. _____

ORDER

**COMPLIANCE FILING AND
REQUEST FOR APPROVAL OF
PROPOSED SURCHARGE**

Open Meeting
December 19 and 20, 2006
Phoenix, Arizona

BY THE COMMISSION:

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Introduction

Pursuant to Decision No. 68658, dated November 7, 2006, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic removal surcharge. The Company proposes monthly surcharges that vary by meter size. The Company's proposed surcharges would increase the average residential customer's bill (5/8-inch x 3/4-inch meter) by approximately \$13.59 (or 58.86 percent) from \$23.20 to \$36.79. Staff recommends surcharges that conform with the Arsenic Remedial Surcharge Mechanism ("ARSM")¹ authorized by Decision No. 68718.² Staff's recommended surcharges would increase the average residential customer's bill by approximately \$11.37 (or 49.01 percent) from \$23.20 to \$34.57.

Background

On January 23, 2001, the United States Environmental Protection Agency reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by January 23, 2006.

On June 1, 2006, in Decision No. 68718, Las Quintas was authorized financing approval and an ARSM. Decision No. 68718 directed the Company to make an arsenic surcharge recovery filing within 15 days of the loan closing. Implementation of the ASRM would enable the Company to meet its principal and interest obligations on the actual amount of the loan and pay income taxes on the surcharges.

Staff Adjustments

Staff recommends two adjustments to the Company's ARSM calculations. Staff noted that Decision No. 68718 stated that,

...

¹ Decision No. 68718 uses the term "arsenic recovery mechanism" or "ACRM" instead of "arsenic remedial surcharge mechanism" or "ARSM." The latter term is used herein.

² Dated June 1, 2006.

1 “ . . . LQS be required to calculate its proposed surcharge tariff using . . .
2 the same methodology that Staff used to determine the estimated surcharge
3 amount . . .” (emphasis added).

4 Staff’s methodology allowed only the principal and interest on the authorized loan amount
5 and the related income taxes to be recovered through the ASRM. Staff noted that in addition to
6 those authorized costs, the Company’s proposed surcharge includes \$38,983 for the annual Water
7 Infrastructure Financing Authority (“WIFA”) Debt Reserve payment and incremental income taxes
8 thereon. Since a provision for these additional items was not authorized in Decision No. 68718,
9 Staff removed the \$38,983 from the surcharge revenue requirement to calculate the arsenic
10 remedial surcharge.

11 Staff also determined that the Company improperly calculated the gross revenue
12 conversion factor used in the ARSM. According to Staff, the Company’s calculation does not
13 include a gross-up for income taxes on the surcharge revenues to cover principal on the arsenic
14 loan. This omission understates the Company’s gross revenue conversion factor, and
15 consequently, the surcharge revenue requirement. Staff corrected this error by using the 1.4120
16 gross revenue conversion factor reflected in Staff’s ARSM testimony that was the basis of the
17 ARSM adopted by the Commission.

18 Staff recommends approval of Staff’s recommended arsenic surcharges as shown on
19 Table A.

20 Staff further recommends that the Company file a tariff consistent with Table A explaining
21 the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of
22 the decision resulting from this proceeding.

23 Staff further recommends that Las Quintas notify its customers of the Arsenic Remedial
24 Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.

25 We find that Staff’s adjustments and its recommendations are appropriate and should be
26 adopted.

27 ...

28 ...

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Las Quintas is a certificated Class C utility that provides water service to approximately 900 customers in a portion of southern Pima County, Arizona.

2. The Company seeks an arsenic remedial surcharge tariff in this proceeding authorizing the monthly surcharges as shown on Table A to aid the Company in its efforts to comply with the Environmental Protection Agency's new arsenic maximum contaminant level of 10 ppb which became effective January 23, 2006.

3. Staff determined that the Company's surcharge calculation is not consistent with the authorized ARSM and recommends adjustments to calculate the surcharge as authorized.

4. Staff calculated surcharges to conform with the authorized ARSM.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

3. Approval of an arsenic surcharge is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for approval of an arsenic remedial surcharge tariff, as calculated by Staff.

ORDER

IT IS THEREFORE ORDERED that the application by Las Quintas for approval of an arsenic remedial surcharge to service the debt necessary to complete the arsenic treatment investment as recommended by Staff and shown on Table A is approved.

...

...

1 IT IS FURTHER ORDERED that the Company shall docket a tariff consistent the arsenic
2 remedial surcharge approved herein explaining the terms and conditions of the arsenic remedial
3 surcharge within 30 days of the effective date of this decision.

4 IT IS FURTHER ORDERED that Las Quintas shall notify its customers in a form
5 acceptable to Staff, of the arsenic remedial surcharge tariff approved herein within 30 days of the
6 effective date of this Decision.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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11 _____
CHAIRMAN

COMMISSIONER

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14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15
16 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
17 Director of the Arizona Corporation Commission, have
18 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2006.

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21 _____
BRIAN C. McNEIL
22 Executive Director

23
24 DISSENT: _____

25 DISSENT: _____

26 EGJ:CSB:lhv/JMA
27
28

Decision No. _____

1 SERVICE LIST FOR: Las Quintas Serenas Water Company
2 DOCKET NO. W-01583A-04-0178, et al.

3 Mr. Lawrence V. Robertson, Jr.
4 Attorneys for Las Quintas Serenas Water Company
5 Post Office Box 1448
6 Tubac, Arizona 85646

7 Mr. John Gay
8 1241 West Calle De La Plaza
9 Sahuarita, Arizona 85629

10 Las Quintas Serenas Water Company
11 Post Office Box 68
12 Sahuarita, Arizona 85629

13 Mr. Ernest G. Johnson
14 Director, Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18 Mr. Christopher C. Kempley
19 Chief Counsel
20 Arizona Corporation Commission
21 1200 West Washington
22 Phoenix, Arizona 85007

TABLE A

Arsenic Remedial Monthly Surcharge Per Meter

5/8 Inch x 3/4 Inch Meter	\$ 6.78
3/4 Inch Meter	\$ 10.17
1 Inch Meter	\$ 16.95
1 1/2 Meter	\$ 33.90
2 Inch Meter	\$ 54.24
3 Inch Meter	\$101.70
4 Inch Meter	\$169.50
6 Inch Meter	\$339.00